

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6680

BILL NUMBER: SB 149

NOTE PREPARED: Mar 28, 2005

BILL AMENDED: Mar 24, 2005

SUBJECT: Trustees of Pension Funds.

FIRST AUTHOR: Sen. Lubbers

FIRST SPONSOR: Rep. Torr

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill: (1) adds the Director of the Budget Agency or the Director's designee to the boards of trustees of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). It sets limits of compensation for members of each board; (2) adds language concerning the qualifications for individuals appointed to the PERF Board; (3) provides that four trustees of the PERF Board constitute a quorum; and (4) authorizes the boards of TRF and PERF to establish by rule: (A) how administrative costs of alternative investment programs may be paid; (B) certain valuation dates; (C) investment allocation increments; (D) the contribution allocations date; and (E) the annuity savings account distribution date during a month.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Part 1* The PERF Board and the TRF Board meet monthly, for the most part, although the PERF Board has not met during the month of August over the last few years. For the PERF Board, the new member and the existing five members will receive reimbursement for necessary expenses actually incurred through service on the Board. In addition, the bill removes the \$450 quarterly payments to the five existing members of the PERF Board, thereby saving the PERF Board \$9,000 per year in expenditures. New expenditures levels for the PERF Board will depend upon the expenses actually incurred by the PERF Board members. The fund affected is the nonbudget administrative fund.

Part 1 For the TRF Board, there could be a minimal increase in expenditures depending upon the actual expenses incurred by the Budget Director or his/her designee through service on the Board.

Part 2 and 3 will have no fiscal impact.

Part 4 - Teachers' Retirement Fund: The TRF Board of Trustees will determine how administrative fees will be charged. The Board of Trustees also will decide by rule: (1) when the valuation of a member's annuity savings account (ASA) will be completed; (2) the date when a member's selection or change to an existing selection is to be implemented; (3) the investment allocation increments; and (4) the allocation of member contributions. The proposal does not impose any additional requirements on the Board of Trustees. Any new expenditures will be dependent upon Board action.

Background Information: The following is provided to show *potential costs* if the Board were to decide to implement a strategy which included daily valuation, daily changes by phone and/or the web, and coordination with a daily pricing agent, Northern Trust. This proposal does not require the Board to incur any additional expenditures, and the following is provided for illustrative purposes only.

TRF has estimated the annual ongoing expenditures at \$25 per participant, or approximately \$3.6 M for about 144,000 members. This includes the start-up expenditures. The \$25 annual fee per account estimate would cover daily accounting, making changes (by phone and/or the web), production of monthly statements, as well as set-up and coordination with TRF staff, daily pricing agent (Northern Trust), and internal technology platform.

Part 4 Public Employees' Retirement Fund: The PERF Board of Trustees will determine how administrative fees will be charged. The Board of Trustees also will decide by rule: (1) when the valuation of a member's ASA will be completed; (2) the date when a member's selection or change to an existing selection is to be implemented; (4) the investment allocation increments; (5) the allocation of member contributions. The proposal does not impose additional requirements on the Board of Trustees. Any new expenditures will be dependent upon Board action.

Background Information: The following is provided to show *potential costs* if the Board were to decide to implement a strategy which included daily valuation, daily changes by phone and/or the web. This proposal does not require the Board to incur any additional expenditures, and the following is provided for illustrative purposes only.

PERF cost estimates range between \$24.50 and \$29.10 per participant, or a total of approximately \$5.8 M (236,500 x \$24.50 per participant) to \$6.9 M, (236,500 x \$29.10 per participant). This assumes that members make their investment selections electronically via a web page in a similar method by which investment selections are made in the Legislators' Retirement System. The \$24.50 estimate contemplates continuing the current process of the employers submitting PERF contributions on a quarterly basis. The \$29.10 estimate is based on each employer submitting contributions immediately upon conclusion of each payroll period.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Local units with members in PERF and local school corporations.

Information Sources: Robert Newland, Chief Investment Officer for TRF, 317-232-3868; William Christopher, Director of TRF, 317-232-3869; Bruce Kimery, Acting Executive Director, PERF, 317-233-4133.

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